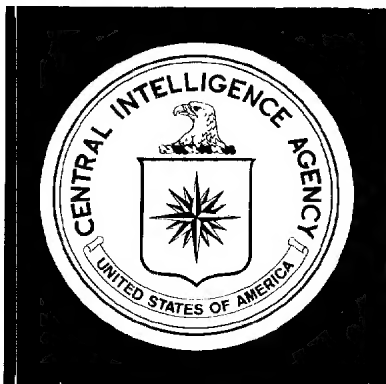


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Jamaica: Current Economic Situation and Implications for US Interests

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Jamaica: Current Economic Situation and Implications for US Interests

*Central Intelligence Agency
Directorate of Intelligence*

July 1977

Key Judgments

The left-leaning government of Prime Minister Michael Manley faces a sharply tightened foreign exchange bind in 1977, largely the result of reduced capital inflows, higher debt servicing obligations, and capital flight. Although Manley is currently following the advice of political moderates in seeking assistance from the International Monetary Fund and industrial nations, sufficient financing is proving difficult, if not impossible, to obtain. If Manley's moderate stance fails to produce results in the coming months, we believe he will again turn to his radical advisers. Under such circumstances, Jamaica might hike bauxite taxes as well as fail to meet obligations imposed by the IMF. The outlook would be for a further deterioration in relations with the United States and an increasing number of Jamaican overtures toward Cuba and the USSR.

Spurred by substantial direct foreign investment in bauxite and tourism, Jamaica enjoyed steady economic growth until recent years. The country's economic situation began to slip in 1972, however, with the deterioration of investor confidence following Manley's election. Prompted by higher oil prices, in 1974 Manley imposed a 600-percent increase in taxes on bauxite, produced mostly by US aluminum companies, and demanded majority ownership of their bauxite operations. Jamaica's competitive position was unhurt because other major US bauxite suppliers emulated the tax increase. Relations with the companies have improved, however, since Kingston reached fairly amicable long-term settlements with three of the four US companies.

Although the tax hike initially facilitated economic growth, Jamaica's economic situation deteriorated rapidly during 1975-76 with the world

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recession. Declines in bauxite output, reduced returns from tourism, lower sugar prices, falling investment inflows, and rampant private capital flight created severe balance-of-payments strains and led to falling real GNP and mounting unemployment. Strikes, rising violent crime rates, and increasing leftist influence in the government further contributed to the problems.

This year, although the current account deficit is declining sharply—and may even become a surplus—with the pickup in bauxite and alumina sales and continuing import constraints, the capital account greatly worsened because of higher debt service, a further reduction in capital receipts, and continuing capital flight. In seeking relief, Manley rejected the advice of leftists and turned to moderate advisers. Despite severe austerity measures and probable receipt of an IMF loan, Jamaica still faces a foreign payments gap of about \$82 million in 1977.

Unless Jamaica can find more foreign financial help than is now in sight, Manley will have essentially two options in closing the remaining gap: to increase austerity or to boost bauxite taxes again. If he chooses the first option, Jamaica faces the prospect of having to slash imports from last year's depressed level by as much as 21 percent to \$743 million in 1977. Moreover, severe payments problems would persist over the next few years, requiring continued stiff austerity measures. The result would be a continuing stagnation of economic activity, mounting unemployment, and increasing political strains.

We believe the odds are strongly against another bauxite tax increase as long as Manley believes further foreign financial assistance will be forthcoming. If this fails, he probably will turn to his radical advisers. A bauxite tax increase and other nationalistic pressures against US interests on the island could well follow. Since other bauxite producing countries are unlikely to follow suit again, the companies might eventually curtail Jamaican bauxite production in favor of that of other countries.

In these circumstances, relations with the United States could deteriorate rapidly. At the same time, Manley probably would seek closer relations with Cuba. Although he has been disappointed by Soviet aid offers thus far, his attempt to lessen dependence on the United States could also lead to more overtures to the USSR.

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Jamaica: Current Economic Situation and Implications for US Interests

Background

Despite a narrow resource base, Jamaica's economic progress has been fairly impressive until recently. Paced by vigorous expansion of the bauxite/alumina industry and tourist industry, mostly by US investors, economic growth averaged nearly 6 percent annually during the 1960s and early 1970s. Sizable current account deficits were amply covered by foreign direct investment inflows. The economy, nevertheless, has been unable to absorb the rapidly growing labor force. Heavy net emigration to the United Kingdom, and more recently, the United States and Canada was insufficient to stem steadily rising unemployment, which grew from 13 percent of the labor force in 1962 to 21 percent a decade later.

Jamaica's economic situation worsened following the 1972 election of the left-leaning, reformist government of Prime Minister Michael Manley. Despite stepped-up public investment financed with foreign borrowing, economic growth slowed after completion of major bauxite/alumina investment projects and a downturn in tourist investment because of labor strikes, Manley's leftist rhetoric, his growing reliance on Marxist advisers, and his increasing political links to Castro's Cuba.

Hard hit by increased oil prices and insufficient financing to cover growing public invest-

ment, Jamaica unilaterally imposed in mid-1974 a 600-percent tax hike on bauxite production, linking the tax to posted US aluminum prices. At the same time, Kingston demanded a 51-percent share in the aluminum companies' bauxite operations and nearly all of their land holdings on the island. Except for these moves, Manley's economic program has been more rhetoric than action. It has, nevertheless, caused a sharp deterioration in the climate for private investment. Calling for the establishment of a democratic socialist society, Manley has extended government participation in the economy by acquiring equity shares in some foreign and domestic-owned firms and by nationalizing a few others, mainly public utilities.

Worsening Economic Situation

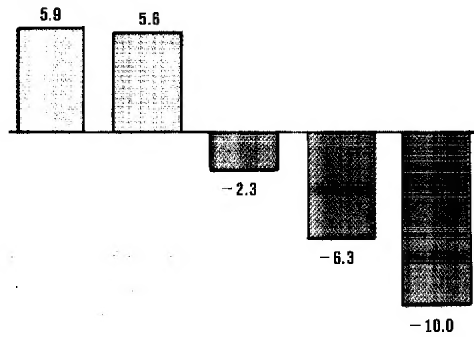
Initially, the \$145 million increase in bauxite taxes contributed to a near doubling of Jamaica's export earnings, helped to finance a large public works program, and facilitated continued economic growth. The gains were short-lived, however, because of the downturn in bauxite and tourism earnings beginning in 1975. Moreover, enlarged government spending contributed to rising inflation and a surge in imports. To reduce the current account deficit and to curb inflation, the government greatly increased income and property taxes in 1975 and instituted stringent controls on imports and credit. Declines in private capital inflows as a

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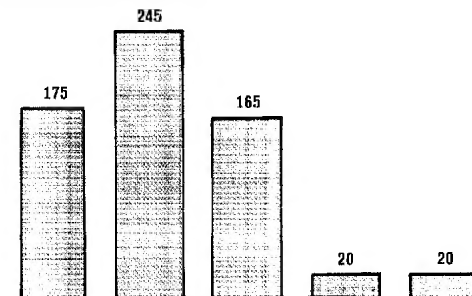
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Jamaica: Economic Indicators

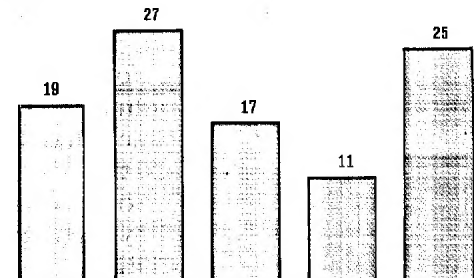
Real GDP Growth
Percent



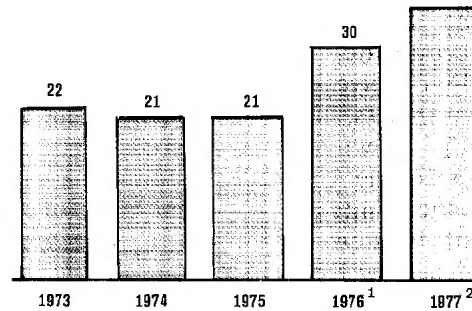
Foreign Reserves
Million US \$, Yearend



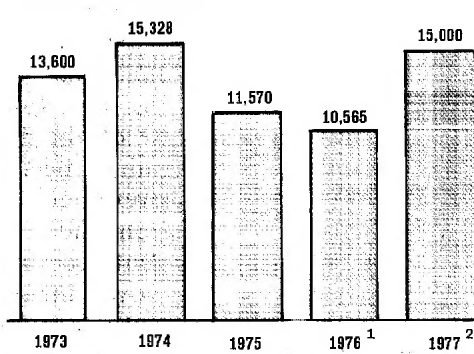
Inflation Rate
Percent



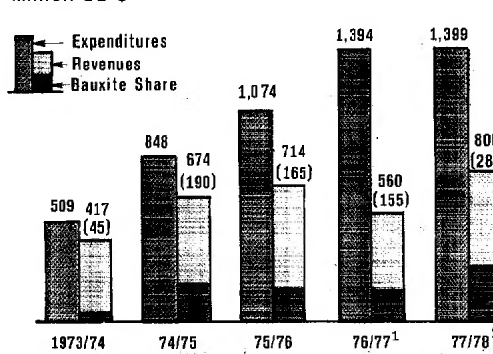
Unemployment Rate
Percent



Bauxite Production
Thousand Metric Tons



Government Expenditures and Revenues
Million US \$



1. Estimated
2. Projected
573398 6-77

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result of Manley's policies and rhetoric were only partly offset by increased government short-term borrowing. Consequently, Jamaica had to draw heavily against foreign reserves.

In 1976, Jamaica's economic situation deteriorated rapidly.

- Declines in bauxite/alumina exports and lower world prices for sugar—one of Jamaica's main exports—greatly reduced export earnings.
- Rising violent crime rates accelerated the drop in tourism.
- Increased prices for oil and other imports further contributed to a foreign exchange crunch and continued high inflation.
- Harsh import restrictions led to a 6.3-percent decline in real economic growth in 1976 on top of a 2.3-percent drop in 1975, while unemployment climbed to about 30 percent of the labor force (see the graph).
- The aluminum companies failed to resume bauxite/alumina investment.
- Manley's socialist rhetoric continued to scare other foreign investors away and led to a surge in capital flight.
- Jamaica's poor credit rating, further weakened by delays in servicing private debts, made commercial bank loans almost impossible to obtain.

This year despite a prospective current account improvement, Jamaica faces a sharply tightened foreign exchange bind, largely because of greatly increased debt service on the heavy official short-term borrowing of the past two years. Earnings from exports of goods and services will likely increase about \$110 million because of the pickup in bauxite and alumina shipments with recovery of the world aluminum industry. This improvement is expected despite the continued depression of world sugar prices and a probable further decline in tourism. To manage the current account deficit, Manley imposed tough austerity measures in January, which he hopes will slash imports to \$825

Jamaica: Balance of Payments

Million US \$

	1973	1974	1975	1976 ¹	1977 ²
Exports, f.o.b.	393	754	808	672	798
Alumina	163	347	324	262	354
Bauxite	87	147	98	136	200
Sugar	39	87	154	56	54
Other	104	173	232	218	190
Imports, c.i.f.	665	936	1,123	935	743
Petroleum	72	199	198	200	250
Other	593	737	925	735	493
Trade balance	-272	-182	-315	-263	55
Net services and transfers	24	90	62	-39	0
Tourism	130	136	129	106	90
Other	-106	-46	-67	-145	-90
Current account ...	-248	-92	-253	-302	55
Direct investment ..	75	23	0	0	0
Medium- and long-term loans (net)	131	203	174	185	55
Short-term capital (net)	7	-49	-1	-80	-110
Capital account	213	177	173	105	-55
Errors and omissions	5	-15	0	52	0
Change in reserves ..	-30	70	-80	-145	0

¹ Estimated.

² Projected on the basis of capital receipts that include \$40 million in IMF credits and imports lowered to yield no reduction in reserves.

million in 1977. These measures include strict foreign exchange controls, direct import curbs, increased personal income taxes, and a freeze on wages and prices. A trade improvement of this magnitude would nearly wipe out the current account deficit this year (see table).

Current account deficit	\$27 million
Debt amortization	
medium- and long-term	\$75 million
short-term	\$140 million
Expected capital flight	\$10 million
Total	\$252 million

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At the same time, reduced capital inflows, higher debt amortization payments, and continuing capital flight will greatly worsen the capital account. As matters stand, Jamaica can expect a \$55 million capital account deficit in 1977 compared with a \$105 million surplus last year. Consequently, despite greatly reduced imports, Jamaica faces international payments obligations this year of an estimated \$252 million, assuming the government achieves its planned reduction in imports.

To help cover these obligations, Kingston has lined up about \$130 million, almost entirely from official sources, including:

- Multilateral aid of about \$25 million in project and technical support, mainly from the World Bank and the Inter-American Development Bank;
- Canadian official aid totaling \$37 million, mainly long-term export credits;
- US official aid totaling about \$25 million, largely PL-480 assistance;
- Venezuelan project aid of about \$13 million;
- UK budgetary support of about \$4 million;
- Hungarian trade credits of up to \$8 million;
- Dutch aid of \$8 million to finance imports; and
- Private sector funds of about \$10 million, mainly from Canadian banks.

Jamaica probably can also count on about \$40 million in funds from the IMF if it complies with stringent IMF loan conditions, which include devaluing the currency and slashing government spending. Manley now appears more anxious to meet IMF terms than at any time in recent months. Earlier this year, Manley had blasted the IMF as being unresponsive to

the needs of the less developed countries (LDCs) and asked one of his key Marxist advisers to draft an emergency economic plan to enable Jamaica to dispense with IMF help. As a result of the government's continuing difficulties in securing loans elsewhere, however, Manley shelved the radical plan and, in the hope of satisfying IMF requirements, announced in April a new plan drawn up by moderates that includes:

- A dual exchange rate with a 38-percent devaluation of the Jamaican dollar for tourism and some commercial transactions;
- A \$275 million ceiling, representing a 16-percent cut, on the portion of this year's budget deficit financed domestically;
- New agricultural programs, including establishment of state-run enterprises to boost production; and
- Introduction of production targets for Jamaica's small manufacturing and craft industries.

The new plan still represents more rhetoric than action. Devaluation is unlikely to stimulate tourism as long as violent crime remains rampant. Moreover, the devaluation does not apply to hotel accommodations, which will continue to be paid in US dollars at unchanged rates. The devaluation will have little impact on export earnings since it mainly encourages nontraditional agricultural exports and local manufacturers, which account for only a small share of the island's total exports. Transactions in the bauxite/alumina industry are excluded from the devaluation. Reflecting Manley's stiff opposition to tinkering with major public works programs, the government recently announced that it would maintain spending during the current fiscal year at \$1.4 billion, nearly 50 percent of GDP, roughly the same level as last year. At the same time, the budget deficit is scheduled to remain at more than 40 percent of expenditures. Consequently, Jamaica will have to take additional severe belt-tightening steps to qualify for IMF funds.

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Despite Manley's optimism, acquiring substantial further financing, even to roll over debt coming due, will be extremely difficult. Although attainment of an IMF agreement could pave the way for some additional funds from commercial banks, Jamaica's poor credit rating will severely limit the amount. Moreover, Jamaica can expect little help from Communist and OPEC sources.

- China refused a \$30 million cash aid request last year, agreeing instead to supply only \$1 million worth of rice.
- The USSR is unlikely to provide hard currency assistance.
- The OPEC Special Fund last year rebuffed a Jamaican aid request.

As a result, Jamaica still faces a foreign payments gap of about \$82 million in 1977.* Since Jamaica's gross foreign exchange holdings are now down to about \$20 million—less than two weeks' import cover—they will provide little help.

Jamaica's Options

Unless Jamaica can find more foreign financial help—including debt rescheduling—than is now in sight, Manley will have essentially two options in closing the remaining payments gap: to increase austerity or to boost taxes greatly on bauxite/alumina. If he chooses the first option, Jamaica would face the prospect of having to cut imports another \$82 million to \$743 million this year. This would be below last year's depressed level by as much as \$192 million or 21 percent. A cut in imports of this magnitude could lower real 1977 GDP by as much as 10 percent to 81 percent of the 1974 level, and further increase the unemployment rate.

Moreover, severe payments problems would persist over the next several years, requiring continued stiff austerity measures. Continuing

*This gap is slightly higher than Jamaican estimates because Kingston is counting on a loan of up to \$40 million from Trinidad this year. A loan of this magnitude is unlikely, however.

recovery of the world aluminum industry will allow earnings from bauxite/alumina to increase rapidly. If imports are kept under tight control, these earnings will steadily reduce the trade deficit despite poor prospects for other major exports. Improvement in the current account will remain slow, however, because of a rising services deficit, the result of higher interest payments, and the likely continuing sluggish performance of tourism.

Jamaica's ability to attract capital to manage its current account deficits and to meet debt amortization obligations will remain severely limited. Despite Manley's hope that recent accords with the aluminum companies will lead to a resumption of bauxite/alumina investment, the unsettled political situation and strong leftist influence almost certainly will keep the investment climate poor. An Alcoa official has stated, for example, that his company will not put another penny in Jamaica. Instead, US aluminum companies are expanding capacity in Guinea, Australia, and Brazil, which will further reduce US dependence on Jamaican bauxite and alumina. There are no indications that company production in Jamaica will be cut, however.

Consequently, unless Jamaica can increase foreign borrowing far beyond the modest levels warranted by its extremely weak international credit rating, Kingston will have to restrict imports to about the depressed 1976 level at least through 1979 to close the payments gap. The result would be stagnation of real GNP, resurgent inflation, and mounting unemployment.

In these circumstances, Manley almost certainly is considering greatly boosting taxes on bauxite/alumina. Such a step could enable Jamaica to close this year's payments gap with little adverse effect on output and employment in the short term. For example, a 70-percent increase in bauxite taxes retroactive to the beginning of 1977 would avert the need to reduce imports below last year's level; a 120-percent increase would enable Jamaica to restore imports to the peak 1975 level.

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US Economic Leverage

The US government has some leverage to head off a Jamaican move to raise taxes. It could, for example, threaten to cancel US aid both in the pipeline and under consideration and to use its influence to try to deny funds from the World Bank, Inter-American Development Bank, and IMF, which are critical to Jamaica. In view of the potentially large financial gains from a tax hike, however, this leverage probably would not constitute a significant deterrent to Manley, particularly if the IMF denies Jamaica's pending request for funds.

As in 1974, the aluminum companies would have little ability to resist a tax increase in the short term. Since world aluminum demand is rising, production is near capacity at most other company sources, and additional supplies would be difficult to acquire. As a result, it would take the companies up to two years to replace as much as half of Jamaican supplies with production elsewhere.

The aluminum companies have no pressing financial reasons to resist a large Jamaican tax hike in the short term. Since bauxite represents only a small share of aluminum costs, a doubling of the Jamaican tax would add less than 3 cents a pound to total US aluminum costs even if no Jamaican supplies were replaced from other sources; the US market price of aluminum is currently about 50 cents a pound. Since aluminum demand is strong and rising and the price of steel—its closest competitor in relatively new uses such as metal containers and automobiles—is rising, producers would have little difficulty passing on the hike.

Over the longer term, however, the companies' ability to shift supply sources gives them substantial leverage. Any significant cut in their Jamaican output would seriously hurt Jamaica's payments position at this time. Unlike 1974-76, other producers almost certainly would be slow to follow Jamaica's tax lead.

Although any substantial curtailment of company bauxite/alumina purchases from Jamaica

over the next several years would expose their Jamaican investments to threat of expropriation, this probably would not be a credible deterrent to the companies. Jamaica would have serious problems in keeping operations going without foreign help. Moreover, the likely closure of the US market would be disastrous to Jamaica's foreign payments position since the United States absorbs about 80 percent of the island's bauxite/alumina sales.

In this case, the Communist countries might be willing to provide technical assistance and some machinery and equipment credits. They would be of little help, however, in providing an alternative market for bauxite since their combined import needs from non-Communist countries presently total about 3.5 million tons of bauxite and 1 million tons of alumina annually—equal to about half of present Jamaican exports. Most of these supplies are obtained under long-term contracts with Guinea, Greece, Yugoslavia, and Turkey; the Communist countries probably would be unwilling to break these contracts.

Outlook

Although a Jamaican tax hike on bauxite cannot be ruled out, we believe the odds are strongly against it in the next few months. As Manley comes to realize that his moderate approach in seeking help from the IMF and the industrial nations is not bringing in the needed foreign funds, he probably will again turn to his radical advisers. Manley might well break the terms of any stabilization agreement reached with the IMF. Nationalistic demands against US interests almost certainly will ensue. Pressures for a tax boost will mount, regardless of the adverse long-term economic consequences. Jamaica probably also would consider defaulting on its external debt of \$280 million, 44 percent of which is held in the United States.

In these circumstances, relations with the United States would deteriorate into a chain of confrontations. At the same time, Jamaica would continue to press for closer ties with

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Cuba. Although Manley appears disappointed with Soviet aid offers thus far, his efforts to lessen dependence on the United States could lead to a growing Soviet presence on the island.

In any case, the Jamaican economy faces a bleak outlook over the next several years.

Spreading violence, strikes, and the stepped-up emigration of Jamaica's middle class are likely in the wake of the further austerity measures needed to balance Jamaica's international accounts. With the increased influence of Marxist advisers, Jamaica's drift toward a de facto one-party state will accelerate.

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APPENDIX

Status of Jamaica's Relations with US Aluminum Companies

As a result of foreign exploitation of the country's rich bauxite deposits, Jamaica ranks among the world's leading bauxite producers. Jamaican bauxite/alumina accounts for nearly two-fifths of US supplies. US private investments in the island total nearly \$1 billion. Bauxite/alumina facilities alone account for \$660 million, about two thirds of the total. In addition, there are US investments valued at an estimated \$300 million in banking, insurance, communications, tourism, and manufacturing. Current expropriation insurance by the Overseas Private Investment Corporation (OPIC) covers about \$445 million of the bauxite/alumina investment--the largest coverage for any country in the world.

Moves Against the Aluminum Companies and Impact

In June 1974, influenced by greatly increased prices for oil and other imports as well as the desire to finance increased public investment, Manley unilaterally altered the aluminum companies' contracts with the government to increase production taxes and royalties on bauxite from \$2 to \$11.65 per ton, linking the taxes to posted US aluminum prices. He also demanded that the companies permit Kingston to purchase up to 51 percent equity in their Jamaican bauxite operations--about 15 percent of the value of their combined bauxite and alumina holdings on the island--and to allow reversion of unexploited company bauxite reserves in excess of 25 years' needs.

All of the companies paid the levy under protest. By mid-1975, Kaiser, Reynolds, and Alcoa, acceding in principle to virtually all of Manley's demands, agreed to negotiate early final accords. Reyere--a marginal aluminum producer--closed its Jamaican properties, however, and offered to sell them to the government. In the short run, the companies had only limited financial incentive to resist the tax

increases and little ability to shift supply sources.

- Nearly 40 percent of US-owned bauxite and about 10 percent of US-owned alumina capacity is located in Jamaica.
- Bauxite represents only about 15 percent of total aluminum costs; more than doubling bauxite costs since 1973 added only about 3 cents per pound to the cost of aluminum made from Jamaican bauxite and even less to total US aluminum costs.
- Shifting sources of bauxite supplies is hampered by the fact that alumina refineries are designed to process a particular type of bauxite; the adjustments necessary to process other types are costly and time consuming.
- Shifting bauxite and alumina sources also is constrained by the vertical integration of the world aluminum industry, which normally limits the availability of supplies from competitor companies.

The bauxite tax increase did little damage to Jamaica's competitive position because other major suppliers to the United States followed suit. These moves have roughly doubled US delivered costs of imported bauxite and alumina since 1973--to \$28 and \$131 per ton, respectively, in 1976 (see table A-1).

- Surinam, the Dominican Republic, and Haiti--facing higher production costs than Jamaica--established production taxes similar to, although slightly less than, Jamaica's.
- Guinea, location of a major Alcoa bauxite investment that came on stream in 1973, followed by imposing an export tax in 1975. This tax--although lower than Caribbean levies--has helped to double bauxite costs

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Table A-1

United States: Costs of Bauxite and Alumina Imports ¹
US \$ per metric ton, c.i.f.

	1969	1971	1973	1974	1975	1976
Bauxite ²						
Weighted average cost	11.81	10.83	11.15	15.64	24.52	28.28
Jamaica	12.92	10.82	11.26	14.63	25.56	28.60
Australia	0	10.52	11.20	0	17.30	0
Guinea	4.16	4.17	7.37	14.21	18.09	22.82
Surinam	8.30	9.60	10.03	15.74	24.66	26.03
Dominican Republic	13.24	13.83	12.90	17.21	21.77	30.17
Haiti	11.88	8.60	9.42	12.87	24.52	31.71
Guyana	7.89	9.66	8.54	16.21	28.66	29.60
Alumina						
Weighted average cost	61.29	64.19	68.36	92.51	125.46	131.14
Jamaica	73.77	74.01	70.45	91.74	145.80	149.26
Australia	58.94	59.13	66.27	89.31	112.47	122.15
Guinea	0	66.17	64.68	0	0	0
Surinam	63.48	64.04	63.79	73.54	112.28	101.16
Guyana	0	76.40	64.52	79.95	93.60	86.79

¹ Zeros indicate that there were no imports for the year.² Metal content; adjusted for US ore grade.

from this source, among the world's richest in high-quality bauxite reserves.

- Australia—the world's largest bauxite producer and the supplier of nearly three-fourths of US alumina imports—used its export licensing control to almost double prices by 1976.
- Guyana, which had nationalized a major Canadian bauxite subsidiary in 1971, greatly increased the bauxite production levy in 1974 on a Reynolds subsidiary. Although the Reynolds operation was nationalized in 1975, the cost of Guyana's high-grade bauxite remained competitive with other Caribbean producers.

Expanding capacity in Guinea and Australia and the worldwide aluminum industry recession nevertheless prompted a 31-percent drop in

Jamaican bauxite production between 1974 and 1976 (see table A-2). As much as half of the decline in Jamaican output resulted from increased purchases by Alcoa from its large new bauxite capacity in Guinea and from its expanding alumina capacity in Australia—projects under way well before Jamaica imposed its tax hike. The remainder of the decline in Jamaican output stems mainly from labor strikes, closure of Revere's operation, and an explosion last year at Alcoa's Clarendon refinery. With depressed worldwide bauxite demand, the companies had no difficulty making up the Jamaican losses from other sources.

As a result, US purchases of Jamaican bauxite and alumina have fallen from 43 percent of total US supplies in 1973 to 37 percent in 1976 (see table A-3). The United States has been reducing its dependence on other Caribbean bauxite suppliers as well. Largely as a result of

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Table A-2

World Bauxite Production ¹

	1970		1973		1974		1975		1976	
	Thousand Metric Tons	Percent	Thousand Metric Tons	Percent	Thousand Metric Tons	Percent	Thousand Metric Tons	Percent	Thousand Metric Tons	Percent
World Total	59,490	100.0	73,002	100.0	81,875	100.0	79,413	100.0	76,386	100.0
Free World	50,792	85.4	63,102	86.4	71,566	87.4	68,945	86.8	65,889	86.3
International Bauxite Asso- ciation	40,056	67.3	51,434	70.5	58,937	73.2	57,439	72.3	57,259	75.0
Australia	9,256	15.6	17,595	24.1	19,994	24.4	21,003	26.4	23,541	30.8
Jamaica	12,009	20.2	13,600	18.6	15,328	18.7	11,570	14.6	10,565	13.8
Guinea	2,490	4.2	3,660	5.0	7,805	9.3	10,640	13.4	10,640	13.9
Surinam	6,022	10.1	6,686	9.2	6,853	8.4	4,750	6.0	3,486	4.6
Guyana	4,417	7.4	3,621	5.0	3,606	4.4	3,829	4.8	3,840	5.0
Yugoslavia	2,099	3.5	2,167	3.0	2,370	2.9	2,306	2.9	2,032	2.7
Indonesia	1,229	2.1	1,229	1.7	1,290	1.6	993	1.3	823	1.1
Dominican Re- public	1,086	1.8	1,086	1.5	1,196	1.5	785	1.0	800	1.0
Haiti	657	1.1	743	1.0	660	0.8	522	0.7	520	0.7
Sierra Leone	449	0.8	693	0.9	672	0.8	716	0.9	660	0.9
Ghana	342	0.6	354	0.5	363	0.4	325	0.4	352	0.5
United States	2,115	3.6	1,909	2.6	1,980	2.4	1,531	2.3	2,022	2.6
Others	8,821	14.5	9,759	13.4	9,649	11.8	9,675	12.2	6,608	8.7
Communist countries	8,898	14.6	9,900	13.6	10,308	12.6	10,468	13.2	10,497	13.7

¹ Because of rounding, percentages may not add to the totals shown.

Table A-3

United States: Sources of Bauxite and Alumina Supplies ¹

	1973				1976			
	Thousand metric tons				Thousand metric tons			
	Bauxite ²	Alumina	Total	Percent	Bauxite ²	Alumina	Total	Percent
Total	6,836	3,062	9,898	100.0	6,996	3,288	10,284	100.0
Domestic	868	NA	868	8.8	970	NA	970	9.4
Jamaica	3,402	820	4,222	42.7	3,199	559	3,758	36.5
Australia	166	1,759	1,925	19.4	Negl	2,496	2,496	24.3
Guinea	67	20	87	0.9	1,210	0	1,210	11.8
Surinam	1,396	345	1,741	17.6	813	191	1,004	9.8
Dominican Repub- lic	499	0	499	5.0	268	0	268	2.6
Haiti	160	0	160	1.6	275	0	275	2.7
Guyana	254	30	284	2.9	237	11	248	2.4
Other	24	88	112	1.1	24	31	55	0.5

¹ Metal content.² Alumina equivalent of bauxite.

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this trend, production in Surinam fell by 49 percent between 1974 and 1976. Labor strikes and bottlenecks at port facilities exacerbated the situation. By contrast, Guinean production surged by 40 percent during the period, and Guinea replaced Surinam as the second largest US bauxite supplier after Jamaica.

Any Jamaican attempt to boost taxes again would have trouble sticking over the longer term, since other major US suppliers are concerned about their competitive positions.

- The Dominican Republic recently signed an accord with Alcoa fixing bauxite taxes and royalties at less than the present Jamaican rates.
- Haiti apparently has backed down on its efforts to negotiate higher taxes with Reynolds.
- Guyana is selling bauxite to Reynolds at \$14 per ton.
- Surinam, anxious to spur development of unexploited bauxite areas, recently reached an amicable three-year tax contract with Alcoa.
- Australia and Guinea probably would be even less likely to follow suit since tax-included bauxite prices are now higher—compared with 1972—than prices for most other non-oil LDC commodity exports.

Settlements with US Aluminum Companies

Despite the loss of bauxite and alumina sales to other producers, the Manley government in the past eight months has reached relatively amicable long-term settlements with three of the four US aluminum companies—Alcoa, Kaiser, and Reynolds. Highlighting the agreements are provisions fixing taxes on bauxite for an eight-year period at slightly reduced rates. Manley's willingness to agree to these provisions apparently reflects: (a) fear that Jamaica's competitive position already has been weakened

by previous tax boosts; (b) the prospective increase in tax proceeds over the next several years as US aluminum prices rise; and (c) hope that the companies will resume bauxite/alumina investment in Jamaica. Specifically, under these accords, Jamaica will:

- Purchase a 51-percent share of Kaiser's and Reynold's bauxite operations (less than 5 percent of their total Jamaican operation) together worth \$15.6 million; and
- Buy all of the three companies' land holdings, worth an additional \$25 million.

In return, Jamaica agreed to:

- Reduce its bauxite tax to 7.5 percent from the current 8-percent rate under an eight-year ceiling, with the possibility of a further slight reduction—in the Kaiser case—contingent on increasing production; and
- Guarantee mining leases to cover the companies' bauxite requirements at present capacity for the next 40 years.

Jamaica's equity and land purchases are to be made at book value. The terms require down-payments of up to 10 percent, with the remainder spread over nine to 10 years at 7.0 percent to 8.5 percent interest. The companies have agreed to settle potential future disputes through private international arbitration.

The status of Revere's contract was litigated in Jamaican courts, which recently ruled that the bauxite tax is legal. Revere can now appeal the decision to Jamaica's Privy Council. In May 1976, Revere filed a \$64 million claim with OPIC, claiming de facto expropriation. OPIC is now trying to find a private buyer for the properties. Unless it finds a buyer, the case is scheduled to go to the American Arbitration Association within a few months. Alcan, a Canadian aluminum firm with large US ownership, is expected to soon reach an accord with Jamaica which would mirror the settlements with Kaiser and Reynolds.

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Prospects

Implementation of the recent settlements with the aluminum companies will constitute a net financial drain during the next several years. Although the accords will bring US bauxite/alumina operations under closer Jamaican control, the Jamaican purchases still will amount to only about 10 percent of the value of US aluminum companies' total holdings on the island since most US assets are in alumina refining rather than bauxite mining. In the case of the Kaiser and Reynolds holdings, Kingston will not gain managerial control of bauxite operations until 1984. Jamaica hopes eventually to purchase controlling interests in alumina refining as well and to initiate bauxite/alumina production from the company reserves that revert to the state under the settlements. Kingston's lack of funds and technical expertise, however, will make this a slow process at best.

Jamaica would like to diversify its markets through bauxite/alumina sales to Communist countries. However, it will not be in a position to make large sales to these countries over the next few years. Most of the bauxite/alumina accruing to Jamaica under the new agreements with the companies will eventually be absorbed by aluminum smelters that Kingston hopes to jointly build and operate in Mexico, Trinidad, and other Latin American countries.

Jamaica's diversification efforts reflect both Manley's goal to achieve a state-owned aluminum industry and Jamaica's eroding competitive position. Expanding US bauxite capacity in Australia, Brazil, and Guinea is in keeping with the growing exploitation of those areas where bauxite is most abundant. More than two-thirds of the world's known bauxite reserves are located in these three countries, compared with only 6 percent in Jamaica (see table A-4). Substantial new company bauxite/alumina capacity will be coming on stream in these countries by 1980 (see table A-5).

Table A-4**World Bauxite Reserves**

	Million Metric Tons	Percent *
World total	17,273	100.0
Guinea	4,572	26.5
Australia	4,572	26.5
Brazil	2,540	14.7
Jamaica	1,016	5.9
Cameroon	762	4.4
Greece	762	4.4
Surinam	508	2.9
Indonesia	406	2.4
Ghana	335	1.9
India	305	1.8
Yugoslavia	203	1.2
Other	1,292	7.5

*Because of rounding, components may not add to total.

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Table A-5

Location of Bauxite Capacity of the Major US Aluminum Companies

	Bauxite Production Capacity (Thousand Metric Tons)			Percent ¹		
	1973	1976	1980 ²	1973	1976	1980 ²
Aluminum Company of						
America	12,200	14,055	15,300	100	100	100
Surinam	4,645	4,645	4,645	38	33	30
Australia	2,810	2,875	3,315 ³	23	20	22
Dominican Re- public	1,465	1,465	1,465	12	10	10
Guinea	1,080	1,790	2,430 ⁴	9	13	16
Jamaica	1,345	1,345	1,345	11	10	9
Brazil	85	170	306 ⁵	1	1	2
Other	770	1,765	1,794	6	13	12
Kaiser Aluminum and Chemical Corpora- tion	11,850	11,850	11,850	100	100	100
Jamaica	6,875	6,875	6,875	58	58	58
Australia	4,740	4,740	4,740	40	40	40
Other	235	235	235	2	2	2
Reynolds Metals Com- pany	8,000	8,145	9,083	100	100	100
Jamaica	4,640	4,640	4,640	58	57	51
Australia	3,200	3,200	3,970 ³	40	39	44
Guinea	0	145	145	0	2	2
Brazil	0	0	168 ⁵	0	0	2
Other	160	160	160	2	2	2

¹ Because of rounding, components may not add to the totals shown.² Projected.³ Based on bauxite needed to supply Alcoa's and Reynold's shares of a 1 million-ton alumina refinery, to begin construction in late 1977.⁴ Based on Alcoa's 27% marketing share in a consortium which plans to expand output to 9 million tons by late 1978.⁵ Based on preliminary request for mining permits. Tentative plans call for unspecified increased capacity during the early 1980s.⁶ Based on Reynolds' 5% equity share in Brazil's Trombetas mine, scheduled to begin production in 1979. Capacity could reach 400,000 tons during the early 1980s if Brazil goes ahead with its plans to develop the project, and Reynolds maintains its present equity portion.

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